

**TESTIMONY OF INTERIM INSPECTOR GENERAL
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BEFORE THE D.C. COUNCIL COMMITTEE ON GOVERNMENT
OPERATIONS
FISCAL YEAR 2006 BUDGET REVIEW**

APRIL 8, 2005

GOOD AFTERNOON, CHAIRMAN ORANGE AND MEMBERS OF THE COMMITTEE: I AM PLEASED TO TESTIFY TODAY CONCERNING THE PROPOSED FISCAL YEAR (FY) 2006 BUDGET REQUEST FOR THE OFFICE OF THE INSPECTOR GENERAL (OIG). SEATED WITH ME ARE KAREN BRANSON, GENERAL COUNSEL AND ACTING DEPUTY INSPECTOR GENERAL, AND WILLIAM DIVELLO, THE ASSISTANT IG FOR AUDITS.

PROPOSED FY 2006 BUDGET

OUR TOTAL REQUESTED OPERATING BUDGET FOR FY 2006 IS \$12.9 MILLION TO SUPPORT 113 FULL-TIME EMPLOYEES (FTEs). THIS REPRESENTS AN INCREASE OF \$1.6 MILLION OVER OUR FY 2005 APPROVED OPERATING BUDGET. HOWEVER, \$1.3 MILLION OF THAT INCREASE IS DUE TO ANTICIPATED COSTS FOR THE CAFR AND OTHER BUDGET ADJUSTMENTS. THE MAYOR'S PROPOSED BUDGET IS \$12.6 MILLION, WHICH CONSISTS OF \$11.3 MILLION IN LOCAL FUNDS TO SUPPORT 96 FTEs AND \$1.3 MILLION IN FEDERAL FUNDING TO SUPPORT 12 FTEs. IN ADDITION, THE MAYOR PROPOSES COMMUNITY INVESTMENT FUNDING IN THE AMOUNT OF \$300,000 AND 5 FTEs FOR THE ACCOUNTABILITY, CONTROL, AND COMPLIANCE PROGRAM, WHICH IS EARMARKED TO ADDRESS TWO AREAS WHERE FINANCIAL VULNERABILITY HAS BEEN CHRONIC: DCPS AND MEDICAID. THE \$300,000 AND 5 FTEs ARE NOT INCLUDED IN OUR BASELINE AS REFLECTED IN THE MAYOR'S BUDGET IN ORDER TO COMPLY WITH THE 4.7% CAP ON DISTRICT-WIDE INCREASES FOR FY 2006. IF APPROVED BY THE COUNCIL, THE \$300,000 WILL THEN BE ADDED TO OUR BASELINE.

THE NONDISCRETIONARY BUDGET

A BRIEF ANALYSIS OF THE OIG BUDGET REVEALS THAT SEVERAL MILLION DOLLARS OF OUR FUNDING IS DESIGNATED FOR MATTERS OVER WHICH WE HAVE LITTLE CONTROL. FUNCTIONS REQUIRED BY LAW INCLUDE THE FOLLOWING:

- ADMINISTRATION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), WHICH IS CONTRACTED TO A CERTIFIED PUBLIC ACCOUNTING FIRM
- AUDIT OF THE HIGHWAY TRUST FUND
- AUDIT OF PROCUREMENT AND CONTRACT ADMINISTRATION
- AUDIT OF THE HOME PURCHASE ASSISTANCE FUND
- AUDIT OF THE HIGHWAY TRUST FUND 5-YEAR FORECAST
- AUDIT OF THE ANTIFRAUD FUND OF THE OFFICE OF THE ATTORNEY GENERAL
- AUDIT OF THE PROFESSIONAL ENGINEERS FUND
- REVIEW AND REPORT OF ANALYSIS OF ALL CANCELLATIONS OF CONTRACTS AND SOLICITATIONS
- MAINTENANCE OF A LIVE COMPLAINT HOTLINE
- REFERRAL OF CRIMINAL ALLEGATIONS TO THE U.S. ATTORNEY'S OFFICE (USAO) AND TO CONDUCT INVESTIGATIONS AS NECESSARY

EFFECT OF BUDGET CUTS

ALTHOUGH CONGRESSIONAL LEGISLATION PROTECTS THE INSPECTOR GENERAL'S BUDGET REQUEST AS A MEANS OF ENSURING INDEPENDENT AND EFFECTIVE OVERSIGHT OPERATIONS, THE RECORD WILL SHOW THAT OUR OFFICE HAS BEEN VERY COOPERATIVE IN HELPING THE CITY STAY WITHIN BUDGET CONSTRAINTS. DURING THE LAST 4 FISCAL YEARS, WE AGREED TO BUDGET REDUCTIONS WHICH, IN TOTAL, REPRESENT A 20 PERCENT REDUCTION FROM OUR FY 2001 BUDGET ESTIMATE. THESE PAST REDUCTIONS HAVE ALL BUT ELIMINATED DISCRETIONARY FUNDING SO

THAT ANY FURTHER CUTS NOW IMPACT PERSONAL SERVICE SPENDING AND RESOURCES THAT, IN FACT, RETURN MONEY TO THE CITY.

ADDITIONAL CUTS TO THE MAYOR'S PROPOSED BUDGET WOULD NOT BE MANAGEABLE WITHOUT ELIMINATING FTEs AND IMPLEMENTING A REDUCTION IN FORCE. REDUCING PERSONNEL COULD ALSO AFFECT OUR ABILITY TO FULFILL THE REQUIREMENTS PLACED ON OUR ORGANIZATION BY FORCE OF LAW, I.E., REFERRAL OF CRIMINAL VIOLATIONS TO THE U.S. ATTORNEY'S OFFICE, INVESTIGATIONS OF THOSE REFERRALS, AND SEVERAL SPECIALIZED AUDITS. IN ADDITION, OUR AUDITORS, INSPECTORS, INVESTIGATORS, AND ATTORNEYS PLAY A VITAL ROLE IN ENSURING THE DISTRICT'S FISCAL INTEGRITY, ESPECIALLY THROUGH OUR INDEPENDENT OVERSIGHT OF THE CAFR REPORTS AND OUR ROLE IN ADVISING THE CITY'S BOND UNDERWRITERS AND OTHER STAKEHOLDERS OF THE DISTRICT'S CONTINUED FINANCIAL STRENGTH.

OUR COMBINED RESOURCES ARE NOW ENGAGED IN COVERING MANY OF THE MOST PROMINENT ISSUES AND PERVASIVE PROBLEMS FACING THE CITY, SUCH AS LEAD CONTENT IN THE WATER, SCHOOL SECURITY, CHILD AND FAMILY SERVICES, MENTAL HEALTH CARE, PROCUREMENT, COMMUNITY DEVELOPMENT, MEDICAID REIMBURSEMENTS, AND ABUSE OF VULNERABLE ADULTS, JUST TO MENTION A FEW.

AT THIS POINT, I WILL BRIEFLY NOTE SOME OF THE ACCOMPLISHMENTS OF EACH OF OUR FOUR OPERATING DIVISIONS.

AUDIT DIVISION

IN THE AUDIT DIVISION, WE NOT ONLY EXCEEDED OUR PERFORMANCE GOALS, BUT WE CONTINUE TO REFINE AUDIT PROCESSES, AUDIT PLANNING, EXECUTION, AND REPORTING. THE RESULTS OF THESE

ENHANCEMENTS HAVE ALSO HELPED TO IMPROVE THE TIMELINESS OF AUDITS PERFORMED.

FOR FY 2004, WE ISSUED 42 REPORTS WITH POTENTIAL MONETARY BENEFITS EXCEEDING \$48 MILLION. THESE BENEFITS COMPARE TO AUDIT DIVISION COSTS OF APPROXIMATELY \$2.7 MILLION. ACCORDINGLY, THE RETURN ON INVESTMENT FOR AUDITS PERFORMED BY OIG AUDIT STAFF HAS BEEN APPROXIMATELY \$18 FOR EACH DOLLAR INVESTED.

THE AUDIT DIVISION'S BUDGET REQUEST INCLUDES ADDITIONAL FUNDING OF \$1.2 MILLION FOR PROJECTED NEW CONTRACT COSTS FOR THE 2005 CAFR AUDIT.

BY LAW, THE OIG CONTRACTS FOR THE ANNUAL AUDIT OF THE CITY'S FINANCIAL STATEMENTS. THE COMPLETION OF THE ONGOING AUDIT OF THE FY 2004 CAFR WILL CLOSE OUT THIS FINAL OPTION YEAR OF THE CURRENT CONTRACT WITH KPMG LLP. THE OIG HAS INITIATED ACTIONS NECESSARY TO ENSURE THAT A NEW CONTRACT FOR THE CAFR, COVERING THE BASE YEAR PLUS 4 ADDITIONAL YEARS (FYs 2006-2009) IS IN PLACE IN SUFFICIENT TIME TO CONDUCT THE AUDIT OF THE FY 2005 CAFR. WE EXPECT THE CONTRACT TO BE AWARDED THIS MONTH.

RESIDENT AUDIT SITES

OUR RATIONALE FOR REQUESTING AN ADDITIONAL 5 FTEs IS TO INTENSIFY OUR AUDIT EFFORTS AT DCPS AND IN THE AREA OF MEDICAID FOR FY 06. FOR SEVERAL YEARS, THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) MANAGEMENT REPORTS HAVE HIGHLIGHTED DCPS AND MEDICAID AS AREAS OF MATERIAL WEAKNESS OR SIGNIFICANTLY INCREASED RISK. A CENTRALIZED ON-SITE AUDIT EMPHASIS AT AN AGENCY AND OVER A SPECIFIC PROGRAM CAN HELP MITIGATE THESE RISKS. THEREFORE, WE ARE PROPOSING THE

ESTABLISHMENT OF OIG RESIDENT AUDIT SITES AT DCPS AND THE DEPARTMENT OF HEALTH (DOH). RESIDENT AUDITORS WOULD: (1) CONDUCT CONTINUOUS AUDITS; (2) PROVIDE AN INDEPENDENT AUDIT FUNCTION TO ENSURE COMPLIANCE WITH LAWS AND REGULATIONS; (3) EVALUATE THE EFFECTIVENESS OF PROGRAMS, PROCESSES, AND PRACTICES THAT ARE MANAGED BY THE AGENCIES; AND (4) HELP TO ENSURE THE ACCOMPLISHMENT OF THE STRATEGIC INITIATIVES SET FORTH BY DOH, DCPS, THE MAYOR, AND THE COUNCIL.

(a) DCPS

A SERIES OF AUDITS WE PERFORMED AT DCPS DURING FYs 2004 AND 2005 SHOWED THAT DCPS CONTINUES TO PRESENT SIGNIFICANT RISKS IN THE AREAS OF SECURITY, MANAGEMENT, AND FUND CONTROL THAT HAVE IMPACTED THE LEARNING ENVIRONMENT WITHIN DISTRICT SCHOOLS. IN TERMS OF BUDGET SIZE, DCPS SPENDS ABOUT \$1 BILLION ANNUALLY, OR ABOUT ONE-FIFTH OF THE DISTRICT'S BUDGET.

FURTHER, DCPS HAS EXPERIENCED SIGNIFICANT CRISES OVER THE LAST FEW YEARS IN THE MANAGEMENT OF PROCUREMENT, SECURITY, SPECIAL EDUCATION, TRANSPORTATION, FINANCIAL RESOURCES, AND CAPITAL IMPROVEMENTS. WE BELIEVE THAT DCPS SHOULD RECEIVE SPECIAL INDEPENDENT AUDIT EMPHASIS TO ASSIST IN OVERCOMING THE PROBLEMS THAT HAVE PLAGUED ITS SYSTEMS FOR SO LONG. DCPS IS INDEPENDENT OF THE MAYOR; THEREFORE, THE CONTROL SYSTEMS IN PLACE FOR SUBORDINATE DISTRICT AGENCIES AS A WHOLE ARE DIFFERENT OR MAY BE LACKING FOR DCPS. WE WILL WORK WITH DCPS OFFICIALS TO FOCUS OUR AUDIT EFFORTS ON THOSE ISSUES THAT REQUIRE AUDIT COVERAGE AND THAT REPRESENT THE MOST PRESSING NEEDS.

(b) MEDICAID

DISTRICT EXECUTIVES AND MANAGERS ARE FACED WITH RISK/MANAGEMENT CHALLENGES RELATED TO THE ADMINISTRATION AND OPERATIONS OF THE DISTRICT'S MEDICAID PROGRAM, WHICH APPROXIMATES \$1 BILLION. DUE TO THE SIZE OF MEDICAID REVENUES AND EXPENDITURES, THE NUMBER OF RESIDENTS WHO RELY ON MEDICAID FOR HEALTHCARE COVERAGE, AND THE COMPLEXITY OF IMPLEMENTING THE PROGRAM AT THE AGENCIES WHICH HAVE RELATED REVENUES AND EXPENDITURES, THE RISKS TO THE DISTRICT ARE SUBSTANTIAL. IN RECENT YEARS, MANAGEMENT HAS WRITTEN OFF AS UNCOLLECTIBLE MILLIONS OF DOLLARS OF ACCOUNTS RECEIVABLE FROM THE FEDERAL GOVERNMENT. WE BELIEVE THAT A CENTRALIZED AUDIT EMPHASIS OVER THE MEDICAID PROGRAM IS NECESSARY TO MITIGATE THESE RISKS AND IMPROVE MEDICAID FUNDING CONTROLS PRINCIPALLY AT THE MEDICAL ASSISTANCE ADMINISTRATION, DCPS, THE CHILD AND FAMILY SERVICES AGENCY, AND THE DEPARTMENT OF MENTAL HEALTH.

INSPECTIONS AND EVALUATIONS DIVISION

DURING FISCAL YEAR 2004, THE INSPECTIONS AND EVALUATIONS DIVISION (I&E) COMPLETED TWO COMPREHENSIVE INSPECTIONS AND ONE SPECIAL EVALUATION OF ONE OF THE DISTRICT'S MOST IMPORTANT AGENCIES: THE DEPARTMENT OF YOUTH REHABILITATION SERVICES, FORMERLY THE DEPARTMENT OF HUMAN SERVICES, YOUTH SERVICES ADMINISTRATION. THE DIVISION ALSO COMPLETED INSPECTIONS OF TWO ADMINISTRATIONS WITHIN THE DEPARTMENT OF HEALTH: THE EMERGENCY MEDICAL SERVICES ADMINISTRATION AND THE OFFICE OF PRIMARY CARE, PREVENTION, PLANNING AND MEDICAL AFFAIRS. IN ADDITION TO THESE INSPECTIONS, THE DIVISION RE-INSPECTED THE SOLID WASTE MANAGEMENT ADMINISTRATION, FLEET MAINTENANCE ADMINISTRATION (FMA), AND PARKING SERVICES ADMINISTRATION (PSA)

IN THE DEPARTMENT OF PUBLIC WORKS. THE RE-INSPECTION REPORTS FOR FMA AND PSA WILL BE ISSUED IN FY 2005. I&E ALSO BEGAN A COMPREHENSIVE, LONG-TERM INSPECTION OF THE DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS, WHICH IS STILL ONGOING.

THIS SMALL STAFF OF MANAGEMENT ANALYSTS CONTINUES TO PROVIDE SIGNIFICANT FINDINGS AND RECOMMENDATIONS THAT PROMOTE EFFICIENCY AND EFFECTIVENESS IN KEY CITY AGENCIES AT COSTS SIGNIFICANTLY LESS THAN FEES CHARGED BY PRIVATE CONTRACTORS. THE COST TO THE DISTRICT TO PERFORM A COMPREHENSIVE OIG INSPECTION AND EVALUATION IS ABOUT ONE-THIRD THAT CHARGED FOR COMPARABLE WORK BY CONTRACTORS AND CONSULTANTS. OUR INSPECTIONS FOCUS ON AREAS THAT WILL HAVE THE GREATEST IMPACT ON AGENCY OPERATIONS AND THE HIGHEST RETURN ON OUR INVESTMENT OF RESOURCES. THEY ARE A COST-EFFECTIVE METHOD FOR ALERTING THE MAYOR AND THE COUNCIL TO SIGNIFICANT MANAGEMENT AND OPERATIONAL PROBLEMS, FOR ASSISTING CITY AGENCIES IN ASSESSING THEIR STRENGTHS AND WEAKNESSES, FOR MEASURING THE EFFECTIVENESS OF AN AGENCY'S INTERNAL CONTROLS, AND FOR RECOMMENDING ADJUSTMENTS THAT CAN IMPROVE CRITICAL OPERATIONS.

INVESTIGATIONS DIVISION

THE HIGHEST PRIORITY OF THIS DIVISION IS THE INVESTIGATION OF CRIMINAL CONDUCT THAT MUST BY LAW BE REFERRED TO USAO FOR POSSIBLE PROSECUTION. IN THE LAST FISCAL YEAR THE INVESTIGATIONS DIVISION REFERRED 60 CASES TO THE USAO. OF THESE CASES, 23 WERE ACCEPTED FOR FURTHER INVESTIGATION. IN ADDITION, NINE CASES WERE PRESENTED TO THE D.C. OFFICE OF THE ATTORNEY GENERAL FOR PROSECUTION UNDER LAWS WITHIN THE JURISDICTION OF THAT OFFICE. THE INVESTIGATIONS CONDUCTED BY

OIG SPECIAL AGENTS (ALONE OR IN COOPERATION WITH OTHER LAW ENFORCEMENT AGENCIES) RESULTED IN 15 CONVICTIONS AND MORE THAN \$4 MILLION IN FINES, RESTITUTION, AND RECOVERIES IN FY 2004.

THE INVESTIGATIONS DIVISION CONTINUES TO BE HEAVILY INVOLVED IN CRIMINAL INVESTIGATIONS IN COOPERATION WITH THE USAO. TO DATE IN FY 05, 12 CONVICTIONS HAVE RESULTED. TWO MORE DEFENDANTS HAVE BEEN FOUND GUILTY, AND AWAIT SENTENCING. IN ADDITION, SEVERAL OF OUR INVESTIGATORS ARE WORKING ALMOST FULL TIME ON PENDING PROSECUTIONS.

ANOTHER IMPORTANT COMPONENT OF OUR EFFORTS TO DETER FRAUD, WASTE, AND ABUSE IS THE DIVISION'S REFERRAL PROGRAM, BY WHICH WE REFER ADMINISTRATIVE MATTERS TO OTHER DEPARTMENTS AND AGENCIES THAT CAN BEST ADDRESS THESE MATTERS. IN FY 2004, THE OIG REFERRED A TOTAL OF 154 MATTERS TO 37 DISTRICT AGENCIES. TO DATE, IN FY 05, THE OIG HAS REFERRED 75 MATTERS TO 37 DISTRICT AGENCIES AND 6 FEDERAL AGENCIES. IN MOST CASES, THE OIG MONITORS THE RESPONSES TO THESE REFERRALS TO ENSURE THAT THE MATTERS ARE HANDLED APPROPRIATELY. THE FOCUS OF THE REFERRAL PROGRAM IS TO HOLD AGENCY HEADS ACCOUNTABLE FOR ADDRESSING ALLEGED MISMANAGEMENT AND INEFFICIENCY WITHIN THEIR AGENCIES.

MEDICAID FRAUD CONTROL UNIT

AS A CERTIFIED MEDICAID FRAUD CONTROL UNIT (MFCU), THE UNIT AT THE OIG RECEIVES 75 PERCENT OF ITS FUNDING IN THE FORM OF A GRANT FROM THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES OFFICE OF INSPECTOR GENERAL. THE REMAINING 25% IS FUNDED LOCALLY.

THE UNIT CONCENTRATES MUCH OF ITS RESOURCES ON FINANCIAL FRAUD AGAINST THE MEDICAID PROGRAM. ONE CRIMINAL FRAUD CONVICTION WAS OBTAINED IN FY 04 AGAINST A DENTIST WHO PROVIDED CARE TO DISTRICT CHILDREN AND BILLED FOR MORE SERVICES THAN ACTUALLY PROVIDED. IN ADDITION, THE MFCU RECOVERED MORE THAN \$1.2 MILLION DOLLARS IN FY 04, REPRESENTING A RETURN OF \$3 FOR EVERY DISTRICT DOLLAR THAT FUNDS THE UNIT.

CURRENTLY, THE UNIT IS ENGAGED IN APPROXIMATELY 52 FRAUD INVESTIGATIONS, 24 OF WHICH HAVE BEEN OPENED IN FY 2005. WE ANTICIPATE SUBSTANTIAL MONETARY RECOVERIES IN FY 2005. SEVERAL PENDING MATTERS ARE CURRENTLY AT THE UNITED STATES ATTORNEY'S OFFICE AWAITING PROSECUTION, AND NUMEROUS ON-GOING INVESTIGATIVE MATTERS ARE AT A POINT WHERE RESOLUTION IS IMMINENT. IN FACT, THE MFCU HAS ALREADY RECOUPED APPROXIMATELY \$1 MILLION IN GLOBAL SETTLEMENTS SINCE THE START OF FISCAL YEAR 2005. IN ADDITION, ONE CRIMINAL CONVICTION HAS BEEN OBTAINED AGAINST A PROVIDER OF NURSING HOME RELIEF STAFF, RESULTING IN MORE THAN \$60,000 IN RESTITUTION TO THE MEDICAID PROGRAM.

A SECOND IMPORTANT AREA ADDRESSED BY THE MFCU IS ABUSE OR NEGLECT OF PERSONS IN MEDICAID-FUNDED FACILITIES, SUCH AS NURSING HOMES AND GROUP HOMES. THE UNIT HAS TAKEN SIGNIFICANT STEPS IN PREVIOUS YEARS TO PROTECT OUR MOST VULNERABLE CITIZENS, AND IT CONTINUES TO MAKE THE PROTECTION OF THESE INDIVIDUALS A PRIORITY.

IN FY 2004, THE UNIT RECEIVED MORE THAN 2000 REPORTS OF ABUSE, NEGLECT, AND FINANCIAL EXPLOITATION OF VULNERABLE ADULTS.

THESE REPORTS INCLUDED ALLEGATIONS OF SEXUAL ASSAULT, INTENTIONAL AND NEGLIGENCE-RELATED INJURIES, AND STOLEN FUNDS AND PROPERTY. THUS FAR IN FY 2005, THE UNIT HAS RECEIVED MORE THAN 1,250 REPORTS OF ABUSE OR NEGLECT.

IN FY 2004, THE MFCU INITIATED 84 ABUSE INVESTIGATIONS. THREE ABUSE CASES WERE PROSECUTED TO CONVICTION, INCLUDING THE SEXUAL ASSAULT OF A RETARDED ADULT. MORE THAN 40 NEW MATTERS HAVE BEEN INITIATED SINCE THE START OF FY 05, INCLUDING SEVERAL WITNESSED ASSAULTS AND SEVERAL SEXUAL ASSAULT MATTERS. FINALLY, A NEW SYSTEM OF PROCESSING OUR CASES FOR ARREST HAS RESULTED IN NINE ARREST WARRANTS FOR ABUSE-RELATED CRIMES BEING ISSUED SINCE DECEMBER. THESE CASES ARE CURRENTLY IN VARIOUS PRETRIAL STAGES. CURRENTLY, 12 CASES ARE BEING INVESTIGATED RELATED TO THEFT OR FINANCIAL EXPLOITATION, AND ONE THEFT CASE HAS BEEN PROSECUTED TO CONVICTION IN FY 05.

IN SUMMARY, OUR BUDGET REQUEST COMES WITH A STRONG TRACK RECORD OF ACCOMPLISHMENT: RETURNING DOLLARS TO THE TREASURY; IDENTIFYING MONETARY BENEFITS THAT WILL ACCRUE YEAR AFTER YEAR; IMPROVING OPERATIONAL EFFICIENCY THROUGH MANAGEMENT INSPECTIONS AND AUDITS; PROTECTING OUR VULNERABLE CITIZENS; AND DETERRING AND DETECTING FRAUD, WASTE, AND ABUSE IN CRITICAL GOVERNMENT OPERATIONS. FOR THESE REASONS, I BELIEVE THAT FUNDING FOR OUR AGENCY REPRESENTS MONEY WELL SPENT.

THIS CONCLUDES MY TESTIMONY, AND MY COLLEAGUES AND I WILL BE HAPPY TO ANSWER QUESTIONS.